

## Auditing Procedures Report

Reset Form

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Issued under Public Act 2 of 1968, as amended

Unit Name	Charter Township of Breitung	County	DICKINSON	Type	OTHER	MuniCode	22-1-020
Opinion Date	5/16/08	Audit Submitted	6/24/08	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin)?
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="\$1,941,170"/>
General Fund Expenditure:	<input type="text" value="\$1,620,944"/>
Major Fund Deficit Amount:	<input type="text" value="\$ 0.00"/>

General Fund Balance:	<input type="text" value="\$1,441,663"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="\$173,164"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations)

CPA (First Name)	Kevin	Last Name	Pascoe	Ten Digit License Number	1101026882
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				Zip Code	49829
CPA Firm Name	Anderson, Tackman & Co.	Unit's Street Address	3851 Menominee St	City	Quinnesec
				Zip Code	49876

**CHARTER TOWNSHIP OF BREITUNG**  
**DICKINSON COUNTY, MICHIGAN**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2007**

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Kevin C. Pascoe, CPA  
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## INDEPENDENT AUDITOR'S REPORT

Members of the Township Board  
Charter Township of Breitung  
Dickinson County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Charter Township of Breitung, Dickinson County, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Breitung's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Charter Township of Breitung, Dickinson County, Michigan as of December 31, 2007, and the respective changes in financial position, and, where applicable cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2008, on our consideration of the Charter Township of Breitung's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3 through 11 and 44, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Breitung, Dickinson County, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC  
Certified Public Accountants

May 16, 2008

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Breitung Township's financial performance provides an overview of the Township's financial activities for the year ended December 31, 2007. Please read it in conjunction with the Township's financial statements, which begin on page 13.

### FINANCIAL HIGHLIGHTS

- Net assets for the Township were reported at \$6,127,967 for 2006 and were \$5,776,592 for 2006, an increase of \$351,375. For 2007, net assets for our business-type activities were \$1,719,641 or 28% of total net assets, while net assets in our governmental activities were \$4,408,326 or 72% of total net assets.
- The Township's expenses for the year totaled \$1,905,721, while revenues from all sources totaled \$2,257,096, resulting in an increase in net assets of \$351,375. In 2006, expenses totaled \$1,992,483 while revenues from all sources totaled \$2,347,523, resulting in an increase in net assets of \$355,040.
- In the Township's business type activities, total revenues were \$339,063, or 15% of total revenue, while expenses totaled \$224,339, or 12% of total expenses. This provided excess revenue over expenses of \$114,724. In 2006, total revenues were \$320,436, or 14% of total revenue, while expenses totaled \$207,337, or 10% of total expenses. This provided excess revenue over expenses of \$113,099.
- The General Fund reported an increase in fund balance of \$147,478 (or 11.4%) compared to an increase of \$36,339 (or 2.9%) in 2006. This was after revenues of \$1,941,170 compared to \$1,996,239 in 2006, and expenditures and other financing uses of \$1,793,692 compared to expenses of \$1,959,900 in 2006.

In the 2007 fiscal year, the Township Board achieved some laudable accomplishments in the areas of intergovernmental cooperation and the municipal utility service, opening areas for the expansion and development of municipal water and sewer service. While making significant inroads in these areas, the Township was able to increase its net assets by slightly more than \$350,000 at a time when a majority of local governments were remaining status quo or regressing. The General Fund, which accounts for a majority of the Township services, was able to increase its fund balance by \$147,000 or 11%, which bodes well for the future.

The calculated strategic moves of the Township Board ensures that the Township is positioning itself to stabilize its revenue sources by maintaining sufficient reserves that interest revenues could be used to offset some loss in property taxes or state shared revenues. While the mortgage crisis has not seriously impacted the local economy, the Township's new housing starts that are typically a source of significant revenue growth, are projected to be down in comparison to previous years. Thus, the increase liquidity in the General Fund balance is anticipated to soften that reduction in revenue.

Further evidence of the strategic planning by the Township Board is illustrated in the Enterprise Funds of the Township, which establishes a \$113,000 increase in revenues over expenses or a 10%

## MANAGEMENT DISCUSSION AND ANALYSIS (continued):

increase. The increase is attributed to further reduction in bonded indebtedness for the East Kingsford water system and a rate increase for capital projects in the system. Both the Quinnesec and East Kingsford systems are poised for future financial stability and the very strong likelihood of capital expansion in one or both systems in the near future.

## USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities (on pages 13 and 14) provide information about the activities of the Township as a whole and present a longer term view of the Township's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The remaining statement provides financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of government.

### Reporting the Township as a Whole

#### Statement of Net Assets and the Statement of Activities

Our analysis of the Township as a whole begins on page 6. One of the most important questions asked about the Township's finances; "Is the Township as a whole better off or in worse condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting, used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Township's net assets and changes in them. You can think of the Township's net assets- the difference between assets and liabilities- as one way to measure the Township's financial health, or *financial position*. Over time, *increases or decreases* in the Township's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Township's property tax base to assess the *overall financial health* of the Township.

In the Statement of Net Assets and the Statement of Activities, we divide the Township into two categories of activities:

- Governmental activities - Most of the Township's basic services are reported here including legislative, public safety, highway and transportation, health and welfare, recreation and cultural, cemetery, and general administration. Property taxes and state shared revenues make up the majority of revenue for these activities.
- Business-type activities - The Township charges customers to provide water utility services.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued):

### Reporting the Township's Most Significant Funds

#### Fund Financial Statements

Our analysis of the Township's Major Funds begins on page 9. The fund financial statements begin on page 15 and provide detailed information on the most significant funds - not the Township as a whole. Some funds are required to be established by State law, and by bond covenants. However, the Township Board of Trustees establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal requirements for certain taxes, grants, and other money. The Township's two kinds of funds - governmental and proprietary - use different accounting methods.

- *Governmental funds* - Most of the Township's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances that are left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the Township's general government operations and the basic services it provides. Governmental fund information helps you to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.
- *Proprietary funds* - When the Township charges customers for the services it provides - whether to outside customers or to other units of the Township - these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the Township's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for other Township programs and activities.

#### The Township as a Trustee

The Township is the trustee, or *fiduciary*, for tax receipts and other collections, which are collected for other agencies and held for a periodic payment to those agencies. The Township's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 22. We exclude these funds from the Township's other financial statements because the Township cannot use these assets to finance its operations. The Township is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued):

### The Township as a Whole

The Township's net combined assets increased by \$351,375.

**Table 1**  
**Net Assets**

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Assets:				
Current and other assets	\$ 3,274,492	\$ 3,152,653	\$ 598,782	\$ 526,616
Capital assets (net)	2,520,730	2,478,384	1,432,030	1,423,612
Total Assets	<u>5,795,222</u>	<u>5,631,037</u>	<u>2,030,812</u>	<u>1,950,228</u>
Liabilities:				
Long-term debt outstanding	145,367	221,482	309,166	342,012
Other liabilities	1,241,529	1,237,880	2,005	3,299
Total Liabilities	<u>1,386,896</u>	<u>1,459,362</u>	<u>311,171</u>	<u>345,311</u>
Net Assets:				
Invested in capital assets, net of related debt	2,375,363	2,256,902	1,122,864	1,081,600
Nonexpendable:				
Cemetery perpetual care	136,054	133,045	-	-
Unrestricted	1,896,909	1,781,728	596,777	523,317
Total net assets	<u>\$ 4,408,326</u>	<u>\$ 4,171,675</u>	<u>\$ 1,719,641</u>	<u>\$ 1,604,917</u>

Net assets of the Township's governmental activities stood at \$4,408,326. Unrestricted net assets, the part of net assets that could be used to finance the day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$1,896,909.

Net assets in our business-type activities stood at \$1,719,641. Unrestricted net assets for our business-type activities were \$596,777.

**MANAGEMENT DISCUSSION AND ANALYSIS (continued):**

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Revenues:				
Program Revenues:				
Charges for services	\$ 65,902	\$ 125,392	\$ 317,262	\$ 303,685
Operating grants	22,850	132,070	-	-
Capital grants	2,885	30,185	-	-
General Revenues:				
Property taxes	1,317,245	1,262,521	-	-
State revenue sharing	414,094	410,745	-	-
Unrestricted investment				
earnings	76,229	65,756	21,801	16,751
Other	18,828	418	-	-
Total Revenues	1,918,033	2,027,087	339,063	320,436
Program Expenses:				
Legislative	54,588	53,579	-	-
General government	762,252	844,474	-	-
Public Safety	358,947	365,023	-	-
Highway and transportation	65,679	67,802	-	-
Health and welfare	384,304	362,110	-	-
Recreation and culture	51,533	55,895	-	-
Cemetery	(8,073)	(6,021)	-	-
Other	4,678	27,152	-	-
Interest on long-term debt	7,474	11,132	-	-
Water utility	-	-	224,339	207,337
Total Expenses	1,681,382	1,781,146	224,339	207,337
Excess (deficiency) before transfers and contributions	236,651	245,941	114,724	113,099
Transfers	-	(4,000)	-	-
Increase (decrease) in net assets	236,651	241,941	114,724	113,099
Net assets - beginning	4,171,675	3,929,734	1,604,917	1,491,818
Net assets - ending	\$ 4,408,326	\$ 4,171,675	\$ 1,719,641	\$ 1,604,917

## MANAGEMENT DISCUSSION AND ANALYSIS (continued):

### Governmental Activities

Revenues for the Township's governmental activities totaled \$1,918,033, while expenses were \$1,681,382. The excess of revenues over expenditures was \$236,651. Table three below reflects the cost of each of the Township's five largest activities; General government, public safety, highway and transportation, health and welfare, and Legislative, as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

**Table 3**  
**Government Activities**

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
General government	\$ 762,252	\$ 844,474	\$ 722,363	\$ 624,860
Health and welfare	384,304	362,110	358,468	342,305
Public safety	358,947	365,023	353,846	332,269
Highway and transportation	65,679	67,802	65,679	67,802
Legislative	54,588	53,579	54,588	53,579
Total	<u>\$ 1,625,770</u>	<u>\$ 1,692,988</u>	<u>1,554,944</u>	<u>1,420,815</u>

### Business-Type Activities

The Township's business-type activities net assets totaled \$1,719,641, with an increase in the current year of \$114,724.

## THE TOWNSHIP'S FUNDS

The focus of the governmental funds of the Township is to provide information on near-term inflows, outflows and balances in spendable resources. The fund information is useful to determine short-term financing requirements and can be used to measure the Township's net resources available for spending at the end of the fiscal year.

For the current fiscal year the Township's governmental funds reported total fund balance of \$1,904,570 in which \$1,670,429 is unreserved. The General Fund's fund balance is \$1,441,663, with \$23,016 being designated (See Note – C).

## MANAGEMENT DISCUSSION AND ANALYSIS (continued):

### General Fund Budgetary Highlights

Over the course of the year, the budget was amended several times. These amendments were made to recognize changes to revenue or expenditures. The budgeted revenues net change from the original budget to the final amended budget amounted to \$72,877, representing an increase of 4%. The final amended budgeted expenditures increased by \$111,377 over the original budget, representing an increase of 6.8%. The original budget projected no change in fund balance, while the actual results showed an increase to fund balance of \$147,478.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of fiscal year 2007, the Township had \$3,952,760, net of accumulated depreciation, invested in a variety of capital assets including land and improvements, buildings and improvements, equipment and furniture, vehicles, and infrastructure relating to the water systems.

**Table 4**  
**Capital Assets at Year-End**  
**(Net of accumulated depreciation)**

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Land	\$ 304,990	\$ 376,990	\$ -	\$ -
Land improvements	173,726	125,324	-	-
Building and improvements	1,393,135	1,428,456	-	-
Equipment and furniture	179,476	219,282	-	-
Vehicles	469,403	328,332	-	-
Infrastructure - water systems	-	-	1,432,030	1,423,612
Total	<u>\$ 2,520,730</u>	<u>\$ 2,478,384</u>	<u>\$ 1,432,030</u>	<u>\$ 1,423,612</u>

## MANAGEMENT DISCUSSION AND ANALYSIS (continued):

### DEBT

At year-end the Township had \$454,533 in notes and bonds outstanding.

**Table 5**  
**Outstanding Debt at Year-End**

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Installment Purchase Agreement: DPW Building	\$ 145,367	\$ 221,482	\$ -	\$ -
Bonds Payable: Refinancing of 1996 Water Bonds	-	-	309,166	342,012
Totals	<u>\$ 145,367</u>	<u>\$ 221,482</u>	<u>\$ 309,166</u>	<u>\$ 342,012</u>

The State of Michigan limits the amount of general obligation debt that local units of government can issue to 10% of the current equalized valuation, including TIF valuations. The Township's outstanding general obligation debt is well below statutory limits.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Township Board and Township management will consider many factors when setting the fiscal year budget, tax rates and fees that will be charged for services.

At the start of the 2008 fiscal year, the Township and surrounding communities received potentially devastating news that the NewPage Mill in Niagara recently purchased from Stora Enso would be closing in 2008. While the operating budget for the 2008 fiscal years had been adopted, the implications of the mill closure will be experienced in the upcoming fiscal years. This event coupled with the decline in the housing market and soaring energy costs have added additional impediments to a beleaguered local and state economy.

In concert with prior year policies, the Township Board recently sought competitive bids for residential refuse collection services. There was one bid that was received from the current vendor GAD which was approximately \$48,000 a year more than in 2007. As part of the Township's due diligence, the Board investigated alternatives to residential refuse collection services such as a bag or tag system, container system, and curbside recycling, all in means to reduce tipping fees through volume reduction. Each of these alternatives had additional associated costs for implementation and administration that did not justify the added overhead along with the increased collection cost.

## **MANAGEMENT DISCUSSION AND ANALYSIS (continued):**

After a thorough deliberation and evaluation of the feasible alternatives for increased collection services the Township Board voted to implement a residential refuse collection fee which will essentially be one-half of 2008 operating budget for refuse collection or \$170,000 to \$190,000. Starting in July of 2008 residential refuse customers will have \$10.58 per month fee assessed on the 2008 summer taxes as a user fee for residential collection services. In 2009 and beyond the Board intends to maintain the General Fund contribution of \$150,000 to subsidize the monthly expense for refuse collection. Based on current projections for fuel surcharges and related factors, the per household fee will most likely increase proportionately.

Given the tenuous situation with the State and local economy, the Township Board believes that the most equitable method to address the increase in residential refuse collection is to segregate the cost to the users of the service. In prior years, the General Fund assumed the full cost of refuse collection residential refuse service. While this method provided adequate cash flow to fund the services, it created inequities in that commercial and industrial property owners were paying for service they did not receive but also had to fund their refuse collection services independently. With the implementation of the residential user collection fee, commercial and industrial users will no longer be shouldering the burden of residential refuse collection through a Township millage supported program. In making this move, the Township hopes to assist local business to maintain current costs in light of rising energy and other operating costs.

## **CONTACTING THE TOWNSHIP'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and customers, as well as investors and creditors with a general overview of the Township's finances and to show the Township's accountability for the revenues it receives. If you have questions about this report or need additional information, contact the Township Superintendent at the Breitung Township Hall, 3851 Menominee Street, Quinnesec, Michigan 49876, phone number (906) 779-2055 and e-mail address [pfranzoi@breitungtwp.org](mailto:pfranzoi@breitungtwp.org).

**CHARTER TOWNSHIP OF BREITUNG**  
**STATEMENT OF NET ASSETS**  
**December 31, 2007**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents			
Restricted	\$ 159,070	\$ 266,673	\$ 425,743
Unrestricted	1,819,890	284,752	2,104,642
Receivables :			
Utilities	-	47,357	47,357
Taxes	1,155,329	-	1,155,329
Prepaid expenses	470	-	470
Due from other governmental units	139,733	-	139,733
Total current assets	<u>3,274,492</u>	<u>598,782</u>	<u>3,873,274</u>
Noncurrent assets:			
Capital assets	3,945,443	2,139,750	6,085,193
Accumulated depreciation	(1,424,713)	(707,720)	(2,132,433)
Total noncurrent assets	<u>2,520,730</u>	<u>1,432,030</u>	<u>3,952,760</u>
Total assets	<u>\$ 5,795,222</u>	<u>\$ 2,030,812</u>	<u>\$ 7,826,034</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 50,197	\$ 2,005	\$ 52,202
Accrued interest	2,798	-	2,798
Deferred revenue	1,155,329	-	1,155,329
Other liabilities	5,408	-	5,408
Compensated absences	6,949	-	6,949
Bonds payable	79,321	29,109	108,430
Total current liabilities	<u>1,300,002</u>	<u>31,114</u>	<u>1,331,116</u>
Noncurrent liabilities:			
Compensated absences	20,848	-	20,848
Bonds payable	66,046	280,057	346,103
Total noncurrent liabilities	<u>86,894</u>	<u>280,057</u>	<u>366,951</u>
Total liabilities	<u>1,386,896</u>	<u>311,171</u>	<u>1,698,067</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,375,363	1,122,864	3,498,227
Restricted:			
Nonexpendable:			
Cemetery perpetual care	136,054	-	136,054
Unrestricted	1,896,909	596,777	2,493,686
Total net assets	<u>4,408,326</u>	<u>1,719,641</u>	<u>6,127,967</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,795,222</u>	<u>\$ 2,030,812</u>	<u>\$ 7,826,034</u>

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2007**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Primary Government			Primary Government		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
<b>Primary government:</b>						Total
Governmental activities:						
Legislative	\$ 54,588	\$ -	\$ -	\$ -	\$ (54,588)	\$ (54,588)
General government	762,252	39,889	-	-	(722,363)	(722,363)
Public safety	358,947	-	2,216	2,885	(353,846)	(353,846)
Highway & transportation	65,679	-	-	-	(65,679)	(65,679)
Health & welfare	384,304	23,000	2,836	-	(358,468)	(358,468)
Recreation & cultural	51,533	-	-	-	(51,533)	(51,533)
Cemetery	(8,073)	3,013	5,968	-	17,054	17,054
Other	4,678	-	11,830	-	7,152	7,152
Interest on long-term debt	7,474	-	-	-	(7,474)	(7,474)
Total governmental activities	1,681,382	65,902	22,850	2,885	(1,589,745)	(1,589,745)
Business-type activities:						
Water utility	224,339	317,262	-	-	92,923	92,923
Total primary government	\$ 1,905,721	\$ 383,164	\$ 22,850	\$ 2,885	\$ (1,589,745)	\$ (1,496,822)
General revenues:						
Property taxes					1,317,245	1,317,245
State revenue sharing					414,094	414,094
Unrestricted investment earnings					76,229	21,801
Gain on sale of fixed assets					18,828	-
Total general revenues and transfers					1,826,396	21,801
Changes in net assets					236,651	114,724
Net assets - beginning					4,171,675	1,604,917
Net assets - ending					\$ 4,408,326	\$ 1,719,641

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**December 31, 2007**

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and equivalents:			
Restricted	\$ 23,016	\$ 136,054	\$ 159,070
Unrestricted	1,331,992	327,213	1,659,205
Receivables:			
Taxes	1,155,329	-	1,155,329
Due from other governmental units	139,733	-	139,733
Prepaid expense	470	-	470
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 2,650,540</u>	<u>\$ 463,267</u>	<u>\$ 3,113,807</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 48,140	\$ 360	\$ 48,500
Deferred revenue	1,155,329	-	1,155,329
Other liabilities	5,408	-	5,408
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>1,208,877</u>	<u>360</u>	<u>1,209,237</u>
Fund balances:			
Reserved for:			
Prepaid items	470	-	470
Cemetery perpetual care	-	136,054	136,054
Unreserved:			
Designated	23,016	-	23,016
Undesignated	1,418,177	-	1,418,177
Unreserved, reported in non-major:			
Special revenue funds	-	326,853	326,853
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>1,441,663</u>	<u>462,907</u>	<u>1,904,570</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 2,650,540</u>	<u>\$ 463,267</u>	<u>\$ 3,113,807</u>

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**December 31, 2007**

Total fund balances for governmental funds	\$ 1,904,570
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets	\$ 2,514,078	
Accumulated depreciation	(527,808)	
Total capital assets, net of depreciation		1,986,270

An internal service fund is used by the Township to charge the cost of equipment usage to individual departments of the Township which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	693,448
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Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	(2,798)	
Bonds payable	(145,367)	
Compensated absences	(27,797)	
		(175,962)
Total net assets of governmental activities		\$ 4,408,326

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2007**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>			
Federal sources	\$ 2,885	\$ -	\$ 2,885
State sources	414,094	1,994	416,088
Taxes	1,317,245	-	1,317,245
Charges for services	21,473	23,963	45,436
License and permits	13	-	13
Interest and rents	76,229	20,856	97,085
Other	109,231	2,050	111,281
	<hr/>	<hr/>	<hr/>
Total revenues	\$ 1,941,170	\$ 48,863	\$ 1,990,033
<b>EXPENDITURES:</b>			
Legislative	\$ 54,588	\$ -	\$ 54,588
General government	808,465	-	808,465
Public safety	320,269	2,000	322,269
Highway and transportation	65,679	-	65,679
Health and welfare	302,369	48,094	350,463
Recreation and cultural	64,896	-	64,896
Capital outlay	4,678	-	4,678
Debt service:			
Principal	-	76,115	76,115
Interest and other charges	-	8,739	8,739
	<hr/>	<hr/>	<hr/>
Total expenditures	1,620,944	134,948	1,755,892
	<hr/>	<hr/>	<hr/>
Excess revenues (expenditures)	320,226	(86,085)	234,141
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	-	178,720	178,720
Transfers out	(172,748)	(5,972)	(178,720)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(172,748)	172,748	-
	<hr/>	<hr/>	<hr/>
Net changes in fund balances	147,478	86,663	234,141
Fund balances - beginning	1,294,185	376,244	1,670,429
	<hr/>	<hr/>	<hr/>
Fund balances - ending	\$ 1,441,663	\$ 462,907	\$ 1,904,570
	<hr/>	<hr/>	<hr/>

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2007**

Net changes in fund balances - total governmental funds	\$ 234,141
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays in the amount of \$70,045 exceeded disposals (\$72,000) and depreciation expense (\$84,711).	(86,666)
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An internal service fund is used by the Township to charge the cost of equipment usage to individual departments of the Township which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities.	10,663
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Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Bond principal repayments	76,115
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Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$ 1,133		
Accrued interest on bonds	1,265		
			2,398
Changes in net assets of governmental activities			\$ 236,651

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2007**

	East Kingsford Water	Quinnesec Water	Total Enterprise Funds	Internal Service Fund
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents:				
Restricted	\$ 99,587	\$ 167,086	\$ 266,673	\$ -
Unrestricted	29,844	254,908	284,752	160,685
Utilities receivable	22,877	24,480	47,357	-
Total current assets	152,308	446,474	598,782	160,685
Noncurrent assets:				
Capital assets, net of accumulated depreciation	871,493	560,537	1,432,030	534,460
Total noncurrent assets	871,493	560,537	1,432,030	534,460
Total assets	<u>\$ 1,023,801</u>	<u>\$ 1,007,011</u>	<u>\$ 2,030,812</u>	<u>\$ 695,145</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 1,717	\$ 288	\$ 2,005	\$ 1,697
Bonds payable	29,109	-	29,109	-
Total current liabilities	30,826	288	31,114	1,697
Noncurrent liabilities:				
Bonds payable	280,057	-	280,057	-
Total noncurrent liabilities	280,057	-	280,057	-
Total liabilities	310,883	288	311,171	1,697
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	562,327	560,537	1,122,864	534,460
Unrestricted	150,591	446,186	596,777	158,988
Total net assets	712,918	1,006,723	1,719,641	693,448
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,023,801</u>	<u>\$ 1,007,011</u>	<u>\$ 2,030,812</u>	<u>\$ 695,145</u>

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2007**

	East Kingsford Water	Quinnesec Water	Total Enterprise Funds	Internal Service Fund
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 156,222	\$ 123,616	\$ 279,838	\$ -
Rental	17,900	19,200	37,100	125,200
Other	324	-	324	-
Total operating revenue	<u>\$ 174,446</u>	<u>\$ 142,816</u>	<u>\$ 317,262</u>	<u>\$ 125,200</u>
<b>OPERATING EXPENSES:</b>				
Salaries and fringes	\$ 37,860	\$ 38,915	\$ 76,775	\$ 19,679
Purchased supplies	5,618	6,582	12,200	16,653
Contracted services	4,393	1,304	5,697	3,794
Repairs and maintenance	-	252	252	4,715
Printing and publishing	860	790	1,650	265
Purchased water	53,331	-	53,331	-
Public utilities	-	7,535	7,535	-
Rentals	8,793	8,793	17,586	793
Memberships and dues	1,459	1,459	2,918	-
Communications	196	196	392	-
Conferences and workshops	165	165	330	-
Capital outlay	1,980	1,130	3,110	3,262
Depreciation	15,963	15,760	31,723	79,467
Transportation	93	93	186	-
Other	500	-	500	623
Total operating expenses	<u>131,211</u>	<u>82,974</u>	<u>214,185</u>	<u>129,251</u>
Operating income (loss)	<u>43,235</u>	<u>59,842</u>	<u>103,077</u>	<u>(4,051)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest income	5,698	16,103	21,801	14,714
Interest and other charges	(10,154)	-	(10,154)	-
Total nonoperating revenue (expense)	<u>(4,456)</u>	<u>16,103</u>	<u>11,647</u>	<u>14,714</u>
Changes in net assets	38,779	75,945	114,724	10,663
Total net assets - beginning	<u>674,139</u>	<u>930,778</u>	<u>1,604,917</u>	<u>682,785</u>
Total net assets - ending	<u>\$ 712,918</u>	<u>\$ 1,006,723</u>	<u>\$ 1,719,641</u>	<u>\$ 693,448</u>

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended December 31, 2007

	East Kingsford Water	Quinnesec Water	Total Enterprise Funds	Internal Service Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash receipts from customers	\$ 159,957	\$ 126,241	\$ 286,198	\$ -
Cash receipts from interfund services provided	17,900	19,200	37,100	125,200
Payments to suppliers	(78,739)	(28,242)	(106,981)	(30,018)
Payments for wages and related benefits	(37,860)	(38,915)	(76,775)	(19,679)
Other receipts (payments)	324	-	324	-
Net cash provided (used) by operating activities	61,582	78,284	139,866	75,503
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Sale (purchase) of fixed assets	(26,396)	(13,744)	(40,140)	(208,479)
Principal paid on debt instruments	(32,846)	-	(32,846)	-
Interest paid on debt instruments	(10,154)	-	(10,154)	-
Net cash provided (used) by capital and related financing activities	(69,396)	(13,744)	(83,140)	(208,479)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest earnings	5,698	16,103	21,801	14,714
Net increase (decrease) in cash and equivalents	(2,116)	80,643	78,527	(118,262)
Cash and equivalents, beginning of year	131,547	341,351	472,898	278,947
Cash and equivalents, end of year	\$ 129,431	\$ 421,994	\$ 551,425	\$ 160,685
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 43,235	\$ 59,842	\$ 103,077	\$ (4,051)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	15,963	15,760	31,723	79,467
Changes in assets and liabilities:				
(Increase) decrease in receivables	3,735	2,625	6,360	-
Increase (decrease) in accounts payable	(1,351)	57	(1,294)	87
Net cash provided by operating activities	\$ 61,582	\$ 78,284	\$ 139,866	\$ 75,503

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**AGENCY FUNDS**  
**December 31, 2007**

	Tax Collection Fund
	<hr/>
<b><u>ASSETS</u></b>	
Cash and cash equivalents	<u>\$ 187,587</u>
<b><u>LIABILITIES</u></b>	
Due to other units governmental units	<u>\$ 187,587</u>

See accompanying notes to the financial statements

## **CHARTER TOWNSHIP OF BREITUNG**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **(1) REPORTING ENTITY**

The Charter Township of Breitung was organized in 1877 and voted to become a Charter Township in 1978. The Township operates under an elected seven-member Board, which includes a supervisor, clerk, treasurer, and four trustees.

For financial reporting purposes, in conformance with GASB Statement 14, as amended by GASB 39, the Township's basic financial statements include the accounts of all Township operations for which the Township exercises oversight responsibility. The Township provides services in the following functional areas: liquor law enforcement, fire protection, sanitation, public works, water utility needs, and township enrichment.

Based on the foregoing criteria, the following organizations are not included in the financial report of the Charter Township of Breitung:

Central Landfill Authority – The Authority operates autonomously under intergovernmental service agreements.

Breitung Township Schools – The District operates autonomously as a separate governmental entity.

The accounting policies of the Charter Township of Breitung conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

##### **(2) BASIS OF PRESENTATION**

###### **Government-Wide Financial Statements:**

The Statement of Net Assets and Statement of Activities display information about the Township as a whole. They include all funds of the Township except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods or services

**CHARTER TOWNSHIP OF BREITUNG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

**Fund Financial Statements:**

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the Township are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The Township reports the following as major governmental funds in accordance with the above criteria:

The General Fund as described below.

The Township reports the following as major enterprise funds in accordance with the above criteria:

East Kingsford Water Fund, which is used to account for water utility services provided to East Kingsford.

Quinnebec Water Fund, which accounts for water utility services provided to Quinnebec.

**CHARTER TOWNSHIP OF BREITUNG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The funds of the Township are described below:

**Governmental Funds**

General Fund – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Permanent Fund – The Cemetery Perpetual Care Fund is the Township's only permanent fund. The principal portion of this fund must stay intact, but the interest earnings are used to provide care for the cemetery.

**Proprietary Funds**

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes. The Township applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

Internal Service Fund – The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Township, or to other governments, on a cost-reimbursement basis. In the government-wide financial statements, the Motor Pool Fund is the Township's only internal service fund and is included with the governmental activities and accounts for equipment usage activity used by various Township departments.

## **CHARTER TOWNSHIP OF BREITUNG**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Fiduciary Funds**

Agency Fund - The Tax Collection Fund is the Township's only agency fund and is used to account for assets held by the Township in a trustee capacity or as an agent for individuals or other governments. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

##### **(3) MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

##### **Measurement Focus**

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

## **CHARTER TOWNSHIP OF BREITUNG**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

##### **(4) ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE**

- a. Cash and Equivalents – The Township’s cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable. The Township has not recorded an allowance for uncollectible as the Township does not anticipate any material uncollectable accounts.
- c. Capital Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year.

## **CHARTER TOWNSHIP OF BREITUNG**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### *Government-wide Statements*

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

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The range of estimated useful lives by type of asset is as follows:

Land improvements	10 – 15 years
Buildings and improvements	40 – 50 years
Equipment and furniture	5 – 15 years
Vehicles	5 – 15 years
Infrastructure	10 – 75 years

##### *Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

- d. Restricted Assets – Restricted assets include cash and equivalents, which have been reserved for the principal portion of the Cemetery Perpetual Care Fund non-expendable cash.
- e. Long-Term Debt – The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists of bonds payable.

## CHARTER TOWNSHIP OF BREITUNG

### NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2007

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- f. Compensated Absences – The Township's policies regarding vacation and sick time permits employees to accumulate earned but unused vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.
- g. Deferred Revenues – In the government-wide statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. The Township has reported deferred revenue of \$1,155,329 in the General Fund for property taxes levied in December 2007 for use in 2008. These amounts have been deemed measurable, but not currently available.
- h. Equity Classification

#### *Government-Wide Statements*

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.

**CHARTER TOWNSHIP OF BREITUNG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

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**(5) REVENUES AND EXPENDITURES/EXPENSES**

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**Revenues**

*Government-Wide Statements*

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues, includes all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

*Fund Statements*

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the Township’s policy to use restricted resources first.

**Expenses/Expenditures**

*Government-Wide Statements*

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

## **CHARTER TOWNSHIP OF BREITUNG**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### *Fund Statements*

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

##### **Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

##### **Other Financing Sources (Uses)**

The transfers of cash between the various Township funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

#### **(6) OTHER SIGNIFICANT ACCOUNTING POLICIES**

##### **Interfund Activity**

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

## **CHARTER TOWNSHIP OF BREITUNG**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Budgets and Budgetary Accounting**

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to September 1, the Township Superintendent submits to the Township Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to January 1, the budget is legally enacted through passage of an ordinance.
- c. The Township Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Township Board.
- d. Budgets are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Township Board in December. Individual amendments were not material in relation to the original appropriations which were amended.
- e. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control. Any unexpendable appropriations lapse at the end of the fiscal year.

##### **Property Taxes**

Property taxes are accrued in the year in which they are levied. The tax levy is recorded as deferred revenue until the subsequent year when it becomes available for use.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls.

**CHARTER TOWNSHIP OF BREITUNG**

**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE B – CASH AND EQUIVALENTS**

The composition of cash and equivalents as reported in the government-wide Statement of Net Assets is presented below:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash and equivalents:		
Deposits:		
Insured (FDIC)	\$ 484,919	\$ 484,919
Uninsured	2,233,053	2,296,172
Total cash	<u>\$ 2,717,972</u>	<u>\$ 2,781,091</u>
Government-wide Statement of Net Assets Presentation:		
Restricted	\$ 425,743	
Unrestricted	2,104,642	
Statement of Fiduciary Net Assets:		
Cash and equivalents:		
Unrestricted	187,587	
Total cash and equivalents	<u>\$ 2,717,972</u>	

Cash and cash equivalents consist solely of checking and saving account deposits and certificate of deposits.

Michigan statutes authorize the Township to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposit, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

**CHARTER TOWNSHIP OF BREITUNG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE B – CASH AND EQUIVALENTS (continued)**

*Interest Rate Risk.* The Township carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity.

*Credit Risk.* State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. The investments in cash and equivalents held by the Township at year end are not rated.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure the Township's deposits may not be returned. At December 31, 2007, the Township held \$2,781,091 in deposits with financial institutions, in which \$2,296,172 was uninsured and uncollateralized. Although such deposits exceed federally insured limits, they are in the opinion of management, subject to minimal risk.

*Concentration of Credit Risk.* The Township has no significant concentration of credit risk due to the fact that its deposits are with area banks.

*Foreign Currency Risk.* The Township has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the Township are in accordance with statutory authority.

**NOTE C – RESTRICTED CASH**

A summary of the Township's restricted cash at December 31, 2007 is as follows:

GOVERNMENTAL FUNDS:

General Fund:

For building and grounds maintenance	\$ 23,016
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ENTERPRISE FUNDS:

East Kingsford Water:

For water system improvements	99,587
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Quinnesec Water :

For water system improvements	167,086
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PERMANENT TRUST FUND:

Cemetery Perpetual Care:

For perpetual care of cemetery	<u>136,054</u>
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Total	<u><u>\$ 425,743</u></u>
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# **CHARTER TOWNSHIP OF BREITUNG**

## **NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

### **NOTE D – PROPERTY TAXES**

Information regarding current year property taxes as follows:

Taxable valuation:	
Regular	\$ 314,593,396
Industrial facilities	9,568,800
Millage rate:	
Regular	4.20
Industrial facilities	2.10
Total property taxes:	
Regular	\$ 1,321,276
Industrial facilities	20,094

### **NOTE E – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance at 1/1/2007	Additions	Disposals	Balance at 12/31/2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 376,990	\$ -	\$ 72,000	\$ 304,990
Capital assets being depreciated:				
Land improvements	134,902	61,569	-	196,471
Buildings and improvements	1,816,635	8,476	-	1,825,111
Equipment and furniture	355,696	4,414	-	360,110
Vehicles	1,111,875	204,065	57,179	1,258,761
Total depreciable capital assets	3,419,108	278,524	57,179	3,640,453
Total capital assets	3,796,098	278,524	129,179	3,945,443
Less accumulated depreciation:				
Land improvements	9,578	13,167	-	22,745
Buildings and improvements	388,179	43,797	-	431,976
Equipment and furniture	136,414	44,220	-	180,634
Vehicles	783,543	62,994	57,179	789,358
Total depreciable capital assets	1,317,714	164,178	57,179	1,424,713
Total depreciable capital assets	2,101,394	114,346	-	2,215,740
Governmental activities capital assets, net	\$ 2,478,384	\$ 114,346	\$ 72,000	\$ 2,520,730

**CHARTER TOWNSHIP OF BREITUNG**

**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE E – CAPITAL ASSETS (continued)**

	Balance at 1/1/2007	Additions	Disposals	Balance at 12/31/2007
Business-type activities:				
Capital assets being depreciated:				
Equipment	\$ 1,505	\$ -	\$ -	\$ 1,505
Vehicles	5,450	-	-	5,450
Infrastructure - water systems	2,092,655	40,140	-	2,132,795
Total capital assets	2,099,610	40,140	-	2,139,750
Less accumulated depreciation				
Equipment	1,505	-	-	1,505
Vehicles	5,450	-	-	5,450
Infrastructure - water systems	669,042	31,723	-	700,765
Total accumulated depreciation	675,997	31,723	-	707,720
Business-type activities capital assets, net	\$ 1,423,613	\$ 8,417	\$ -	\$ 1,432,030

Depreciation expense was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 21,853
Public safety	94,964
Parks and recreation	6,092
Health and welfare	41,269
Total governmental activities	
depreciation expense	\$ 164,178
Business-type activities:	
Water	\$ 31,723
Total business-type activities	
depreciation expense	\$ 31,723

**NOTE F – EMPLOYEE'S RETIREMENT PLAN**

The Township administers a defined contribution plan with the John Hancock Life Insurance Company in accordance with the provisions of the John Hancock Defined Contribution Pension Plan for Government Employees.

Plan Description – Normal retirement age under the plan is age 65, or, if later, completion of 10 years of participation in the Plan. Early retirement is permitted at any time after attainment of age 55. Eligible employees in the Plan are all full-time employees working 40 hours per week, and must be at least the age of 18. Employer contributions are based

**CHARTER TOWNSHIP OF BREITUNG**

**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE F – EMPLOYEE’S RETIREMENT PLAN (continued)**

on the number of years an employee is employed with the Township. 1-4 years of service requires an annual employer contribution of \$1,200, with an increase of \$300 for each additional 5 years of service, with a maximum of \$2,700 for 20 years and over of employment. Participants may make voluntary after-tax contributions, through payroll withholding, in amounts ranging from 1% to 10% of compensation. Benefits attributable to Employer contributions shall be 100% vested upon a Participant’s death, disability, normal retirement or early retirement, or upon termination of the Plan. On termination of a Participant’s service, other than because of death, disability, or normal retirement, such benefits shall vest 100% immediately. The investment of Plan assets is the responsibility of the participants.

Township contribution for the year ended 12/31/07	\$	16,875
Employee contributions		0
Active members		8
Total annual payroll for active members	\$	293,802
Employer contribution as a percentage of payroll		5.74%
Plan assets at the most recent valuation date (12/31/07)	\$	256,167

**NOTE G – LONG-TERM DEBT**

The following is a summary of changes in long-term debt for the year ended December 31, 2007:

Type of Debt	Balance @ 1/1/2007	Additions	Deductions	Balance @ 12/31/2007
<b>Government Activities:</b>				
Installment Purchase Agreement				
DPW Building	\$ 221,482	\$ -	\$ 76,115	\$ 145,367
Compensated Absences	28,930	-	1,133	27,797
Total governmental long-term debt	<u>\$ 250,412</u>	<u>\$ -</u>	<u>\$ 77,248</u>	<u>\$ 173,164</u>
<b>Business-type Activities:</b>				
Bonds Payable				
Refinance of 1996 Water Bonds:				
East Kingsford portion	342,012	-	32,846	309,166
Total business-type long-term debt	<u>\$ 342,012</u>	<u>\$ -</u>	<u>\$ 32,846</u>	<u>\$ 309,166</u>

**CHARTER TOWNSHIP OF BREITUNG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE G – LONG-TERM DEBT (continued)**

Debt service requirements on long-term debt at December 31, 2007 are as follows:

For the Year Ending December 31	<b>Governmental Activities</b>	
	<b>Installment Agreement</b>	
	<b>Principal</b>	<b>Interest</b>
2008	\$ 79,321	\$ 5,533
2009	66,046	2,005
	<u>\$ 145,367</u>	<u>\$ 7,538</u>

For the Year Ending December 31	<b>Business-Type Activities</b>	
	<b>Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2008	\$ 29,109	\$ 13,891
2009	27,656	15,344
2010	27,890	15,110
2011	29,612	13,388
2012	31,407	11,593
2013-2017	146,398	25,602
2018	17,094	103
	<u>\$ 309,166</u>	<u>\$ 95,031</u>

**Governmental Activities:**

As of December 31, 2007, the governmental activities long-term debt consisted of the following:

**Installment Purchase Agreement:**

The Township entered into an installment purchase agreement on November 8, 2002 with a principal amount of \$500,000, and an interest rate of 3.45% per annum until January 1, 2003, and thereafter at an interest rate of 4.40% per annum. Semi-annual principal and interest payments of \$42,427 are due January 31<sup>st</sup> and July 31<sup>st</sup> each year.

**CHARTER TOWNSHIP OF BREITUNG**

**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE G – LONG-TERM DEBT (continued)**

**Business-type Activities:**

As of December 31, 2007, the long-term debt of business-type activities consists of the following:

**Bonds Payable:**

During the year ending December 31, 2004, the Township refinanced the bonds on the East Kingsford portion of the 1996 Water Supply System Revenue Bonds. Bonds were issued on June 29, 2004 for \$421,000 with a variable interest rate ranging from 3.0% to 6.0%, with a maturity date of January 29, 2017. Semi-annual principal and interest payments of \$21,500 are due June 29<sup>th</sup> and December 29<sup>th</sup> each year.

**NOTE H – VESTED EMPLOYEE BENEFITS**

Substantially all of Township employees are entitled to certain vacation, sick pay benefits, and compensation time that accrue and vest based on employment agreements. Vacations not taken within the calendar year shall be forfeited unless permission is obtained from the Township Superintendent to schedule the vacation at a later date. Compensated absences in the amount of \$27,797 are reported under governmental activities in the Statement of Net Assets.

**NOTE I – INTERFUND TRANSFERS**

Transfers between governmental and internal service funds are made to fund various Township programs and operational expenditures and are summarized as follows for the year ended December 31, 2007:

	<u>Transfers In</u>	<u>Transfers Out</u>
<b><u>Governmental Funds</u></b>		
Major Funds:		
General Fund	\$ -	\$ 172,748
Non-Major Funds:		
Cemetery	31,572	-
Township Improvement	147,148	-
Cemetery Perpetual Care	-	5,972
Total Non-Major Funds	<u>178,720</u>	<u>5,972</u>
Totals	<u>\$ 178,720</u>	<u>\$ 178,720</u>

# CHARTER TOWNSHIP OF BREITUNG

## NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2007

### NOTE J – RISK MANAGEMENT

The Township has obtained insurance from Michigan Municipal League Liability and Property Pool. The participating plan coverage areas, limits, and deductibles for the coverage period January 1, 2007 through January 1, 2008 are as follows:

Coverage Area	Limit of Liability	Deductibles
Comprehensive General Liability	\$ 5,000,000	\$ -
Personal Injury Liability	5,000,000	-
Medical Payments	10,000	N/A
Public Officials Liability	5,000,000	-
Employee Benefit Liability	1,000,000	-
Fire Legal Liability	100,000	N/A
Automobile Liability	5,000,000	-
Property - Blanket Basis	4,113,600	1,000
Property - Limited Replacement Cost (if applicable):		
Earthquake	2,000,000	5,000
Flood	1,000,000	5,000
Consequential Damage	100,000	-
Protection and Preservation	100,000	N/A
Personal Effects and Property of Others	500	1,000
Extra Expense	100,000	-
Valuable Papers	100,000	1,000
Loss of Rents	100,000	-
Loss of Income	100,000	-
Accounts Receivable	100,000	1,000
Demolition/Increased Cost of Construction	100,000	1,000
Boiler and Machinery	Included	1,000
Expediting Expense	100,000	1,000
Fine Arts	100,000	1,000
Ornamental Trees, Shrubs, Plants or Lawns	5,000	1,000
Computer Equipment and Media	25,000	1,000
Contractors Equipment	197,597	1,000
Fire Equipment	62,022	1,000
Misc Equipment	25,860	1,000
Voting Equipment	19,890	1,000
Comprehensive Crime Coverage:		
Employee Dishonesty Blanket/Faithful Performance	100,000	-
Money and Securities Inside	100,000	-
Money and Securities Outside	100,000	-
Money Orders and Counterfeit Paper	100,000	-
Depositors Forgery	100,000	-
Bonds:		
Treasurer	100,000	N/A
Clerk	100,000	N/A

**CHARTER TOWNSHIP OF BREITUNG**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

**NOTE J – RISK MANAGEMENT (continued)**

At December 31, 2007, the Township had no outstanding claims, which exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

**NOTE K – CONTINGENT LIABILITIES**

The Township has received financial assistance from federal and state agencies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements or on the overall financial position of the Township at December 31, 2007.

**NOTE L – ANNEXATIONS**

At the start of the 2007 fiscal year, the Township was involved with two petitions for annexation hearings with the State Boundary Commission. On or about mid February, the Township received a third petition from a property owner wishing to annex to the City of Iron Mountain primarily for municipal water and sanitary sewer service. As a result, the Township was faced with a serious financial dilemma, which was to continue spending exorbitant legal fees to defend the Township from annexation and the loss of tax base for current and future budgets or to allow the property to be annexed and reduce legal fees expense.

At the conclusion of two sufficiency hearings, the Township Supervisor engaged in a dialog with one of the petitioners in an attempt to mediate this highly politicized situation. That discussion opened the door to additional discussions with the two other petitioners and ultimately the City of Iron Mountain. Over the course of the spring, summer and fall, the Township Board, petitioners, and representatives of Iron Mountain met on numerous occasions to amicably resolve a potentially bitter litigious situation.

The result of those meetings was the development, acceptance and State recognition of two 425 Agreements and a Utility Service Agreement. Terms of the agreements are as follows: The first 425 Agreement concerns the three parcels that instituted the annexation proceedings and under that agreement, the City and Township will share property tax revenue for a period of 12 years. At the conclusion of the 12-year period, the property is unconditionally transferred to the City and the City retains all property tax revenue generated on the property. In the context of these negotiations the Township,

## **CHARTER TOWNSHIP OF BREITUNG**

### **NOTES TO BASIC FINANCIAL STATEMENTS**

December 31, 2007

#### **NOTE L – ANNEXATIONS (continued)**

City and petitioners agreed that another 425 Agreement would be needed for other properties with potential for future annexations.

The second 425 Agreement addressed property adjacent to the first 425 areas or the annexation petition property. This area was aptly named Area II and provides for the individual property owners to seek inclusion in the City when they believe they need City utilities such as water and sewer. Terms of the Area II agreement allow for revenue sharing between the City and Township for 50 years and up to 100 years. Revenue sharing for Township continues even if and when the property owners file for City services. At the end of the agreement, those properties that have filed for inclusion in the City, sold or changed land use, stay with the City and those who do not will remain with the Township.

A hugely significant caveat with the Area II 425 Agreement was the creation of the Township utility district in which the Township has access to 125,000 GPD of municipal water and sanitary sewer service. To implement the agreements, both legislative bodies had to approve the agreements prior to the end of 2007 which both did. Terms of the utility agreement require the Township to essentially pay a \$300,000 connection to the City for utility service. Based on previous and on going engineer studies, this method proved to be the most cost effective for the Township to access treatment plant capacity and services along with fire flow.

The Township Board and staff are actively pursuing funding for development of the utility system through the USDA and hope to have a formal application on file by the fall of 2008. With this action, the Township and City have positioned themselves for a long-term mutually beneficial operating relationship for 50 to 100 years. Such accomplishment has not been seen nor achieved in this area's history, which makes this all the more significantly compelling.

**CHARTER TOWNSHIP OF BREITUNG**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis) (See Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Federal sources	\$ -	\$ 2,885	\$ 2,885	\$ -
State sources	423,000	423,000	414,094	(8,906)
Taxes	1,302,543	1,302,543	1,317,245	14,702
Charges for services	22,200	22,200	21,473	(727)
License and permits	20	20	13	(7)
Interest and rents	64,900	64,900	76,229	11,329
Other	6,600	76,592	109,231	32,639
Total revenues	\$ 1,819,263	\$ 1,892,140	\$ 1,941,170	\$ 49,030
<b>EXPENDITURES:</b>				
Legislative:				
Supervisor	\$ 12,695	\$ 12,695	\$ 11,803	\$ 892
Township board	41,400	44,900	42,785	2,115
General government:				
Superintendent	87,240	87,240	77,607	9,633
Treasurer	62,175	62,175	59,897	2,278
Clerk	58,045	58,045	56,433	1,612
Assessor	81,330	81,330	58,870	22,460
Planning commission	12,680	12,680	8,562	4,118
Board of review	2,290	2,290	1,718	572
Elections	6,180	6,180	6	6,174
Building and grounds	140,870	140,870	131,383	9,487
Public safety:				
Ordinance enforcement	133,950	133,950	134,397	(447)
Fire protection	174,400	177,285	185,872	(8,587)
Highway and transportation:				
County road construction	62,000	67,000	65,679	1,321
Health and welfare:				
Waste collection	248,980	253,980	246,306	7,674
Department of public works	63,030	63,030	56,063	6,967
Recreation and cultural:				
Parks and recreation	79,250	79,250	64,896	14,354
Other:				
Hospitalization	171,000	171,000	157,473	13,527
Worker's compensation	15,500	15,500	14,394	1,106
Insurance and bonds	70,000	70,000	30,229	39,771
Professional services	-	25,000	17,414	7,586
Audit fees	8,900	8,900	8,900	-
Legal fees	50,000	50,000	60,432	(10,432)
Computer services	12,000	12,000	8,905	3,095
Capital outlay	3,000	3,000	4,678	(1,678)
Industrial park	-	69,992	69,992	-
Retirement	21,000	21,000	16,875	4,125
Office supplies	7,200	7,200	7,719	(519)
Postage	10,400	10,400	9,418	982
Communication	11,000	11,000	12,154	(1,154)
Miscellaneous	-	-	84	(84)
Total expenditures	1,646,515	1,757,892	1,620,944	136,948
Excess revenues (expenditures)	172,748	134,248	320,226	185,978
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out:				
Township Improvement Revolving	(147,148)	(147,148)	(147,148)	-
Cemetery	(25,600)	(25,600)	(25,600)	-
Total other financing sources (uses)	(172,748)	(172,748)	(172,748)	-
Net changes in fund balances	-	(38,500)	147,478	185,978
Fund balances - beginning	1,294,185	1,294,185	1,294,185	-
Fund balances - ending	\$ 1,294,185	\$ 1,255,685	\$ 1,441,663	\$ 185,978

**CHARTER TOWNSHIP OF BREITUNG**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**December 31, 2007**

	Special Revenue Funds			Permanent Fund		Total Nonmajor Governmental Funds
	Cemetery	Liquor Law Enforcement	Township Improvement Revolving	Cemetery Perpetual Care		
<b>ASSETS</b>						
Cash and equivalents:						
Restricted	\$ -	\$ -	\$ -	\$ 136,054	\$	\$ 136,054
Unrestricted	71,416	9,762	246,035	-		327,213
Total assets	<u>\$ 71,416</u>	<u>\$ 9,762</u>	<u>\$ 246,035</u>	<u>\$ 136,054</u>		<u>\$ 463,267</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 360	\$ -	\$ -	\$ -	\$	\$ 360
Total liabilities	<u>360</u>	<u>-</u>	<u>-</u>	<u>-</u>		<u>360</u>
Fund balances:						
Reserved for:						
Cemetery perpetual care	-	-	-	136,054		136,054
Unreserved	71,056	9,762	246,035	-		326,853
Total fund balances	<u>71,056</u>	<u>9,762</u>	<u>246,035</u>	<u>136,054</u>		<u>462,907</u>
Total liabilities and fund balances	<u>\$ 71,416</u>	<u>\$ 9,762</u>	<u>\$ 246,035</u>	<u>\$ 136,054</u>		<u>\$ 463,267</u>

See accompanying notes to the financial statements

**CHARTER TOWNSHIP OF BREITUNG**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2007**

	Special Revenue Funds			Permanent Fund	Total Nonmajor Governmental Funds
	Cemetery	Liquor Law Enforcement	Township Improvement Revolving	Cemetery Perpetual Care	
<b>REVENUES:</b>					
State sources	\$ -	\$ 1,994	\$ -	\$ -	\$ 1,994
Charges for services	20,950	-	-	3,013	23,963
Interest income	2,836	222	11,830	5,968	20,856
Other	2,050	-	-	-	2,050
Total revenues	\$ 25,836	\$ 2,216	\$ 11,830	\$ 8,981	\$ 48,863
<b>EXPENDITURES:</b>					
Public safety	\$ -	\$ 2,000	\$ -	\$ -	\$ 2,000
Health and welfare	48,094	-	-	-	48,094
Capital outlay	-	-	-	-	-
Debt service:					
Principal	-	-	76,115	-	76,115
Interest and other charges	-	-	8,739	-	8,739
Total expenditures	48,094	2,000	84,854	-	134,948
Excess revenues (expenditures)	(22,258)	216	(73,024)	8,981	(86,085)
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	31,572	-	147,148	-	178,720
Transfers out	-	-	-	(5,972)	(5,972)
Total other financing sources (uses)	31,572	-	147,148	(5,972)	172,748
Net changes in fund balances	9,314	216	74,124	3,009	86,663
Fund balances - beginning	61,742	9,546	171,911	133,045	376,244
Fund balances - ending	\$ 71,056	\$ 9,762	\$ 246,035	\$ 136,054	\$ 462,907

See accompanying notes to the financial statements



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Township Board  
Charter Township of Breitung  
Dickinson County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Charter Township of Breitung, Dickinson County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Charter Township of Breitung's basic financial statements and have issued our report thereon dated May 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter Township of Breitung's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of Breitung's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Township of Breitung's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter Township of Breitung's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Charter Township of Breitung's financial statements that is more than inconsequential will not be prevented or detected by the Charter Township of Breitung's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting, as item 07-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter Township of Breitung's internal control.

Members of the Township Board  
Charter Township of Breitung

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter Township of Breitung's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Charter Township of Breitung in a separate letter dated May 16, 2008.

Charter Township of Breitung's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Charter Township of Breitung's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the members of the Township Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*  
Certified Public Accountants

May 16, 2008

## CHARTER TOWNSHIP OF BREITUNG

### SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended December 31, 2007

#### A. FINDINGS – FINANCIAL STATEMENT AUDIT

##### 07-1. SIGNIFICANT AUDIT ADJUSTMENTS

Condition/Criteria: Audit adjustments, which were more than inconsequential, were needed to adjust the financial reporting of the Charter Township of Breitung, Dickinson County, Michigan.

Effect: A significant deficiency in internal controls over financial reporting occurred as a result of audit adjustments, which in the aggregate, are more than inconsequential.

Cause: The financial reporting of the Township was not properly reflected in the general ledger for accounts receivables and fixed assets.

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Recommendation: The financial reporting of the Township should reflect all material account balances accurately (e.g. accounts receivables and fixed assets) as of the year-end.

Management Response:

The Township acknowledges the internal control issue. It should be noted the issue is primarily based on the new SAS Standards promulgated in 2006 and implemented for the 2007 fiscal year. Internal control issues have been and remain a priority of the Township Board and the Board is determined to maintain compliance given the severally limited size of the Township elected officials and administrative staff assigned the responsibility of financial reporting.

Township elected officials and staff have implemented recording of additions to fixed assets to the appropriate balance sheet account rather than expensing them and capitalizing them at the end of the fiscal year. Given the continued uncertainty surrounding State Shared Revenues, the Township intends to record anticipated payments and receivables in the general ledger and adjust the balances based on actual payments received.

It is our belief that these actions will result in significant improved accuracy of the Township financial statements for the 2008 fiscal year and beyond. The Township intends to review the SAS standards along with GASB pronouncements in anticipation of future reporting requirements.



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

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## REPORT TO MANAGEMENT

Members of the Township Board  
Charter Township of Breitung  
Dickinson County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Breitung, Dickinson County, Michigan, for the year ended December 31, 2007, and have issued our report thereon dated May 16, 2008. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated December 17, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Charter Township of Breitung. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Charter Township of Breitung's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 17, 2007.

### Significant Audit Findings

### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of Breitung are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Members of the Township Board  
Charter Township of Breitung

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was (were):

Management's estimate of the useful lives of property and equipment for the purpose of calculating depreciation is based on management's past experience with useful lives of similar assets. We evaluated the key factors and assumptions used to develop the useful lives on fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

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Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Our audit adjustments, individually and in the aggregate, were material and were primarily made to properly accrue revenues and expenditures.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 16, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Members of the Township Board  
Charter Township of Breitung

**Comments and Recommendations**

In planning and performing our audit of the financial statements of the Charter Township of Breitung, Dickinson County, Michigan, for the year ended December 31, 2007, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. This letter does not affect our report dated May 16, 2008, on the financial statements of the Charter Township of Breitung, Dickinson County, Michigan.

This information is intended solely for the use of members of the township board and management of Breitung Township and is not intended to be and should not be used by anyone other than these specified parties.

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Anderson, Tackman & Company, PLC  
Certified Public Accountants

May 16, 2008

**CHARTER TOWNSHIP OF BREITUNG**  
**DICKINSON COUNTY, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS**

December 31, 2007

**DUE FROM STATE OF MICHIGAN**

**Comment:**

We noted unrecorded accounts receivables (Due from State) for state revenue sharing payments as of December 31, 2007.

**Recommendation:**

We recommend state revenue sharing due to be received as of the end of the fiscal year be recorded as a receivable.

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**FIXED ASSET ADDITIONS**

**Comment:**

We noted fixed asset additions in the East Kingsford and Quinnesec Water Funds being expensed in capital outlay, rather than recorded as an addition to the appropriate asset account.

**Recommendation:**

We recommend all fixed asset purchases which meet the Township's capitalization policy be recorded as an asset, rather than expensed, in order to depreciate the assets over its useful lives.

**ALLOCATION OF OPERATING COSTS**

**Comment:**

Currently, the General Fund is absorbing operating costs which are attributed to other funds of the Township (e.g. health insurance, retirement, workers compensation, etc.).

**Recommendation:**

We recommend analyzing General Fund operating costs to establish a cost allocation which will charge funds for their share of operating costs. By doing so, enterprise funds (e.g. water and sewer) will be able to substantiate costs associated with the services provided and therefore determine more accurately water and sewer rates sufficient to covering current and future costs.